

Voluntary Report - public distribution

Date: 10/28/2003

GAIN Report Number: RS3037

Russian Federation

Solid Wood Products

Policy and Trends in the Forestry Sector

2003

Approved by:

Allan Mustard
U.S. Embassy

Prepared by:

Mark Petry and Marina Muran

Report Highlights:

The Fifth International Forestry Forum in St. Petersburg was called to address core issues that will determine the sustainable forest development of the Russian forestry sector in the future. Representatives of the federal, local government, industry and business are joining efforts to finalize the Forest Legislation, develop an optimal system for Forest Certification, suggest a sound tariff policy, and improve policies and regulations to fight illegal logging.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

Table of Contents

Summary 3

Forestry Legislation..... 3

Tariff Policy 4

Forest Certification and Illegal Logging 4

Leningrad Oblast 5

Summary

The annual International Forestry Forum was held in St. Petersburg, during October 14-18, 2003, and sponsored by the Ministry of Industry, Science and Technology, Russian Ministry of Natural Resources, Ministry of Economic Development and Trade, Government of Leningrad Oblast, with the support of leading trade associations and unions of the Russian Forestry Complex.

St. Petersburg was selected as the venue for the Forum because of the advantageous geographical position, the high potential for research and investment, and because it is an important wood processing region with more than 50 percent of all woodworking enterprises located in the northwest of Russia.

The 2003 Forum addressed as the major theme the "Russian Forestry Complex in the XXI Century". In addition to the plenary and roundtable meetings, the Forum highlighted the following conference topics: Problems of sustainable forest management and development, the use of high technologies for the Russian forest products market, trends in the development of the Russian furniture market, the paper and pulp industry of the northwest Russia, and developments in the wood processing industry. Changes in legislature and increasing investments in the Russian forest complex were addressed by representatives of the federal and local government, industry and business world.

In addition, the 2003 annual forum hosted several specialized exhibitions, such as the WoodPulpExpo (technology for the pulp and paper industry), Tekhnodrev (technology, equipment and tools for woodworking and furniture industry) Interles (technology and equipment for forestry, logging and timber removals), Country Housing (materials and components for wood house-building), and the St. Petersburg furniture Salon - IFEP.

Representatives of the timber industry of Russian and foreign countries exchanged views and information on issues pertaining to development of the forestry sector during a special session of the Forum called "market of business contacts", which was added to this year's agenda.

This report is focused on the following topics: Forest Legislature, Tariff Policy, Forest Certification and Illegal Logging, and a fact sheet on the Leningrad Oblast forest complex.

Forestry Legislation

One of the core issues of the Forum was Forestry Legislation, including discussions on whether there is a need for new legislation or amendment of the existing law. The most noteworthy point was made by Aleksander Belyakov, Chairman of the Committee of Natural Resources of the State Duma of the Russian Federation. According to Belyakov, a proposed version of the document does not differ considerably from the existing one adopted in 1997, and adopting new legislation is much more time-consuming than making amendments. Also, it is critical that these amendments be adopted sooner to enable all key players to work toward sustainable development of the forest sector. According to Aleksander Belyakov, changes and amendments to the Forestry Law should be introduced by the government taking into account proposals voiced from the regions. He also stated that management of the forestry resources should be unified, however, users could be different. In other words, strategic management should be conducted at the federal level, while implementation of rational and efficient forest usage - at the regional level.

Five drafts of a Forestry Law prepared by the Ministry of Natural Resources were presented to the Government of the Russian Federation in September 2003. However, none of these drafts reflected the issues jointly developed by the Ministry of Natural Resources,

the Forest Exporters Council of the Russian Federation, and the forestry organizations. Moreover, issues of rational usage, protection of forests, reforestation, and maintaining ecological and resource potential were not fully reflected in these drafts.

According to Prime Minister Mikhail Kasyanov, the "principal aspect to be taken into account is transparency and clear rules of forest management and usage".

Tariff Policy

Export duties for all high value forestry products were another issue discussed at the forum.

According to Government Resolution # 575 dated September 16, 2003, export tariffs for five categories, including sterol (HTS 2902 50 000 0), non-coniferous plywood (HTS 4412 14 000 0), 6mm thick coniferous plywood (HTS 4412 19 000 0), cellulose pulp sulfate (HTS 4702 00 000 0), and kraft-paper (HTS 4804 21 100 0), were abolished; and for some line items, such as coniferous lumber (HTS 440710), the export duty went down to 3, but not less than 2.5 EUR per cubic meter. It is considered a breakthrough in stimulating local producers to export high-value products. However, the Council of Forestry Exporters of the Russian Federation is actively lobbying against export duties for another 180 line items of high-value products.

The poor condition of mills and processing equipment is one of the factors that hinder sustainable development of the forestry industry in Russia. Equipment renovation is needed in most of the processing enterprises. According to Sergey Minin, Deputy Minister of Technology, forest organizations will need to invest in the near future US\$8 billion to purchase new equipment.

Forest Certification and Illegal Logging

According to a statement made by the EU representative at the forum, Russia will not be able to export forestry products without certification to any EU member country beginning in 2006.

The Russian National Council on Certification was set up in 2002. The Council was criticized during the Forum for not having a clear policy and procedure for certification. Although certification should be a tool for sustainable management in the forest sector, most likely Russia will have to contract foreign accredited consulting companies to implement a certification program that can meet Russian economic conditions. Certification companies, like the Forest Stewardship Council, National Voluntary Certification, and the Finnish Council of Forest Certification also made presentations at the forum. It is likely that due to social and economic conditions, Russia will have difficulties in implementing any of the systems presented. According to the Russian National Council only two forestry enterprises have been certified in Vladimir Oblast, while another one is expected to be certified in Vologda. The process of certification is also under way in large forestry plants in Arkhangelsk Oblast.

As per the Forest Law, it is mandatory that all forests in Russia be certified. On the other hand, there is no unified certification system in Russia and currently there are several certification systems being applied throughout the country. As of today only 1.5 million hectares of forests has been certified, which accounts for less than 0.5 percent of total forested area in the country. The certification process in Russia is being delayed also by economic factors. Companies have to pay for certification, most of them are concerned about their own profitability, and the government is not providing any subsidies. Certification is very costly, especially for small-sized companies. The current cost of certification is estimated to be 30 cents per hectare now, but can drop considerably to 5-7 cents per hectare, when accredited consulting and audit firms are set up. The tendency is that most vertically integrated enterprises, as Ilim Pulp, Titan, Volga and other are up to conduct voluntary certification. According to Dmitriy Chuyko, Co-Chair of the Coordination Council on

Cooperation between the Federal Forest Service and Forestry Industrial Complex, Director for Business Development of "Ilim Pulp", since the corporation exports 80 percent of forest products, it has to adapt to world trends in the forest markets. In addition, taking into account the scale of financial turnover of the company, "Ilim Pulp" can allocate some money for certification. That comprises expenditures for staff upgrading, equipment modernization, optimal transportation of wood products and reforestation. According to the same source, certification is supposed to exclude consumer attitudes.

Timber poaching continues to be a major problem for the Russian forestry sector.

State control over logging appeared to be totally inadequate under the new socio-economic conditions of the country. Lack of proper enforcement due to understaffed forestry officers that are supposed to inspect huge forest areas not necessarily visiting sites. There is a trend toward overcutting and logging outside the boundaries of parcels approved for cutting. The logging sites have sufficiently large areas and intricate configurations to make measurement difficult and to conceal the cutting area. According to the World Wildlife Fund, in some regions timber cut exceeds by 1.5 - 2 times the allowed cut. However, new innovative measures to combat illegal logging have been introduced on the regional level lately. Viktor Grachev, the Head of Forestry Department of Vologda oblast, reported that the region in close coordination with local Tax Police, Customs and Highway Patrol, a new document that stipulates the order for transportation of the forestry products within the Oblast. Each shipment should be accompanied by a watermarked bill of lading. Viktor Grachev also mentioned that introduction of the new system this year had already helped to decrease the volume of timber poaching in the region. The Deputy Minister of the Natural Resources stated that the system will be looked at and might be applied to other regions in the future. According to Sergey Morozov, Head of the Forestry Department in Leningrad Oblast, the region combats the problem of illegal logging successfully: the illegal cut is estimated at 0.5 percent of the total allowable cut for the first six months of 2003, versus 0.6 percent for the same period of last year. However, according to Izvestiya of October 9, 2003, the situation with timber poaching in Boksitogorskiy region in Leningradskaya region is desperate. It is estimated that the government budget undercounts more than 600 million rubles (20,000 dollars) annually due to illegal logging just in one region, where approximately 10 percent of wood is being cut illegally.

Leningrad Oblast

More than 60 percent of the Oblast territory is covered with forests, mostly coniferous.

There are 865 million cubic meters of timber in the region, of which 561 million cubic meters is coniferous.

Total annual wood cut is 5.2 million cubic meters, although the total potential cut could go up to 11.3 million cubic meters.

Forest Industrial Complex comprises three main sub-industries that have large industrial potential:

- Logging (80 large and middle enterprises with 43 percent of export share);
- Wood processing (20 wood processing plants and 12 furniture plants with 12 percent export of the Forest Industrial Complex);
- Cellulose and pulp industry (3 paper plants, 5 carton plants that account for 43 percent of export).

The favorable geographical location of the region allows exporters to access both traditional foreign forest product markets and new markets. Due to growing investments in the sector most mid-sized enterprises have started renovation and modernization since they are basic

producers of new forest products. In the last 4 years more than 7 billion rubles has been invested in the Forest Industrial Complex in the region.

According to Sergey Morozov, the Head of the Forestry Department of Lenindgrad oblast, the region was a pioneer in introducing long-term leasing of forest sites that proved to work efficiently with larger companies in the region.

The main objective of the Forest Industrial Complex is to work efficiently, with production meeting international market requirements in both price and quality.

The consensus of participants of this forum was as follows: the structure of the forest industrial sector is changing slowly. Currently the share of low value products is very high. The sector is still very far behind in further processing. Although the quality of domestic forest products has improved recently, it is still lower than international standards. The major accent should be made on production of high value products, specifically, timber processing, paper and pulp. It will ensure wide access to the international markets with considerable return of currency, and along with that, satisfy growing local consumer demand for paper, construction materials and furniture.